

**APEC ECONOMIC LEADERS' DECLARATION  
KUALA LUMPUR, MALAYSIA  
18 NOVEMBER 1998**

**STRENGTHENING THE FOUNDATIONS FOR GROWTH**

We, the Economic Leaders of APEC, meeting in Kuala Lumpur on 18 November 1998, renew our resolve towards creating a prosperous Asia-Pacific community where economic disparities among our peoples will be bridged by strengthening the foundations of our economies for growth, providing the environment necessary for the efficient flow of trade, investment and technology and by enhancing the capacities of our economies to participate and benefit fully from liberalisation.

2. Our meeting in Kuala Lumpur takes place at a critical time. We need to deal urgently with the financial crisis which has spread beyond the APEC region. It has resulted in far reaching social costs, with the affected economies experiencing rising unemployment and falling real incomes, setting back decades of progress achieved in eliminating poverty and increasing education opportunities, as well as access to basic health and infrastructure facilities. **We are resolved to work together to support an early and sustained recovery** in the region, to contain the risks of contagion and prevent the possibility of a global recession.

3. **We reaffirm our confidence in the strong economic fundamentals and prospects for recovery for the economies of the Asia Pacific.** We believe our emphasis on prudent, growth-oriented macroeconomic policies, strengthened financial institutions and markets, trade and investment liberalisation, and capacity building are cornerstones for renewed and sustainable growth. In particular, **our emphasis on "Capacity Building"** across the broad range of APEC activities this year is particularly relevant in addressing the challenges confronting the region during this time. APEC's emphasis on human resources development, including skills development, technological upgrading, infrastructure improvements and wider outreach to SMEs will strengthen our resilience and capability in overcoming these challenges and restoring stability and confidence to the region.

**APEC – KEY CHALLENGES**

**Challenges of the Financial Crisis**

4. Since we met in Vancouver in November last year, the outlook for the global economy has weakened considerably. The regional financial crisis has had economic and social aftershocks more severe than earlier anticipated and similar problems have appeared in other parts of the world.

Nevertheless, there have been several encouraging developments in our economies and in the international financial system in recent months. The progress made by Indonesia, Korea, Philippines and Thailand in the implementation of strong reform programmes, backed by an unprecedented degree of financial cooperation and support from the international community, has resulted in a substantial degree of financial stability, thereby laying the foundation for recovery in the APEC economies most directly affected by the crisis. In these economies:

- Exchange rates have remained relatively stable, and have strengthened in many of these economies over the past several months. This has permitted substantial reductions in nominal interest rates to levels which, in some cases, are below those prevailing before the crisis.
- Fiscal policies have been adjusted with support from the IFIs to allow increased spending to support demand and employment.
- The initial acceleration in inflation that accompanied devaluation has been contained to moderate levels in most emerging Asian economies, and the rate of inflation is now decelerating across the region.
- Short-term external debt burdens have been reduced and reserves have begun to be replenished in many economies.

- Current account balances have moved into surplus, although most of the adjustments have come from reduced imports.
- Output declines have been more extensive than many had anticipated, but are now moderating.
- Several other economies including Indonesia, Korea, and Thailand, have made impressive efforts to strengthen and restructure their respective corporate and financial sectors.

5. In China, interest rates have been eased and an expansionary fiscal package is being implemented to further stimulate economic growth. Maintenance of the renminbi exchange rate has provided an important anchor to help secure regional financial stability.

6. In recent weeks, these developments have been reinforced by :

- the reduction of short-term interest rates in a number of industrialised economies;
- Japan's commitment of substantial public resources to strengthen its financial system. The authorities have made clear their intention that the essential swift and effective action in the banking sector, including the recapitalisation of banks, with appropriate conditions, will be taken as a matter of urgency. This action, together with a sustained boost to domestic demand is key to the restoration of market confidence and growth not just in Japan but in the whole Asian region;
- the progress made towards providing additional resources to the IMF; and
- the G-7's agreement to support the establishment of a new IMF facility to deal with contagion by providing a precautionary line of credit for economies with sound policies supported by the IMF.

7. But important challenges remain. To meet these challenges, **we are committed to pursuing a cooperative growth strategy** with the following dimensions:

- Growth-oriented prudent macroeconomic policies, appropriate to the specific requirements of each of our economies;
- Expanded financial assistance from the international community to generate employment and to build and strengthen social safety nets to protect the poor and vulnerable;
- A comprehensive programme of support for efforts to strengthen financial systems, restore trade finance, and accelerate corporate sector restructuring;
- New approaches to catalyse the return of stable and sustainable private capital flows into the region;
- A renewed commitment to the Bogor goals of achieving free and open trade and investment within APEC; and
- Looking toward the longer-term, urgent work among ourselves and with other economies and institutions to develop and implement measures to strengthen the international financial system.

In this context, we welcome Japan's proposed financial package of US\$30 billion to support economic recovery efforts in Asia. We also welcome the multilateral initiative to revitalise private sector growth announced this week by Japan and the US in conjunction with the Asian Development Bank and the World Bank. We believe these initiatives will significantly aid our joint efforts to promote recovery and growth in the region and we look forward to their early implementation.

#### ***Growth-oriented Macro Policies***

8. Each APEC economy has a role to play in accelerating recovery in the region by directing policies with the objective of maintaining or achieving robust growth, contributing to a supportive external

environment, and keeping markets open.

- The major industrialised economies need to **create or sustain conditions for strong domestic demand-led growth**.
- For the APEC economies most directly affected by the crisis, it is important to continue and accelerate structural reforms within a **framework of prudent, growth-oriented macroeconomic policies**.
- Other economies in the region where growth may be moderate or slowing also need to continue efforts to implement appropriately stimulative macroeconomic policies which maintain financial stability and sound levels of domestic savings, while also working to **address financial sector reforms in ways that build investor confidence**.

#### ***International Support for Employment and Social Safety Nets***

9. We note that the financial crisis has resulted in far reaching social costs. In addition to rising unemployment, and falling real incomes, the financial crisis could lead to a substantial increase in poverty in the most seriously affected economies. We therefore endorse the greater flexibility of IMF programmes, and welcome efforts by the World Bank to triple and the ADB to double their social sector lending.

#### ***Financial and Corporate Sector Restructuring***

10. Revitalising the private sector by helping to recapitalise financial institutions, addressing companies' heavy debt burdens, and restoring their access to trade and working capital financing are critical to achieving renewed economic growth in the economies most severely affected by the crisis.

In this regard, we will encourage financial and corporate sector restructuring through mechanisms to:

- **mobilise additional assistance** to support implementation of accelerated financial and corporate sector restructuring, including through use of multilateral development bank guarantees and other innovative mechanisms;
- **increase the availability of working capital and trade finance**, including through cooperative efforts between export credit and insurance agencies and between such bilateral institutions and the multilateral development banks;
- support efforts to **mobilise significant private sector equity capital and investment** to help distressed companies and financial institutions in the APEC region successfully restructure both their finances and their operations; and
- review and, in line with the respective circumstances, remove regulatory and legal impediments to the ability of private financial institutions to participate constructively in the restructuring of the debts of private sector borrowers, while encouraging **export credit and insurance agencies to play a more catalytic role** in encouraging such restructuring.

#### ***Catalysing Private Capital Flows***

11. In order for the region to fully recover from the crisis, we must be able to attract growth-enhancing, stable capital flows into the region. The increased risk aversion by investors as well as by major private financial institutions has led to a sharp reduction in the flow of capital into East Asian and other emerging market economies without respect to the diversity of prospects among the economies and their long-term growth potential. In response to this challenge, we support **efforts by the multilateral development banks to use innovative financial instruments to help catalyse and leverage private sector capital flows**.

In light of the concerns expressed about the role of the recent performance of the international credit rating agencies, we call for a review of their practices to promote greater effectiveness and to contribute to sustainable capital flows.

In particular, we also need to strengthen the preparedness of our own domestic financial systems to withstand the potentially destabilising impact of short-term flows and to ensure the allocation of long-term capital to productive uses.

### ***Strengthening the International Financial Architecture***

12. While our immediate priority must be to mitigate the adverse social impacts of the crisis and to restore financial stability and economic growth, we must **strengthen the international financial architecture** so as to better prevent future financial instability and to resolve crises more effectively when they occur. We agree that now is the time to effect changes aimed at strengthening the international financial system, so as to capture the full benefits of international capital flows and global markets, while minimising the risk of destructive disruptions. We fully agree that strengthened global arrangements are important to enable us to benefit from increased globalisation while avoiding the difficulties many of our members are currently facing.

In particular, we welcome and support the establishment of the new IMF facility for a precautionary line of credit for economies with sound policies supported by the IMF that are threatened by contagion.

The close collaboration and participation of the industrialised economies and the emerging market economies is vital to the success of these efforts to strengthen the international financial system. APEC has already played a major role in this regard notably in promoting improvements in the international community's ability to respond to crises, through instruments such as the IMF's Supplemental Reserve Facility. We pledge to continue such collaboration.

### **Challenges to Trade and Investment Liberalisation and Facilitation**

13. The expansion of trade and investment remain essential elements of our economic recovery and we reiterate the need for liberal and open markets and an enabling environment for investment. We consider it particularly important that in the current circumstances, early progress be made on broad-based multilateral negotiations in the WTO, achieving an overall balance of interests of all members.

We reaffirm our commitment to uphold and strengthen the multilateral trading system to ensure fair rules and benefits for all. We urge the prompt accession to the WTO of applicants in accordance with WTO rules, with a view towards achieving the universality of WTO membership.

### **Challenges to Economic and Technical Cooperation**

14. Given APEC's diversity and differing levels of development, globalisation and liberalisation must be complemented by initiatives that build confidence and increase capacity to benefit fully from these processes in order to narrow the disparities in income and wealth. Such initiatives will not only strengthen systemic capacities but will also support APEC's liberalisation and facilitation efforts. The challenge will be to continue to achieve a balance in all three pillars of APEC cooperation to ensure sustained economic growth and development. Economic and technical cooperation has acquired added urgency in the wake of the financial crisis.

### **KEY ACHIEVEMENTS IN 1998**

15. We in APEC have continually given emphasis to result and outcome-oriented individual and cooperative efforts through the APEC approach. As we move into the third year of implementation after Subic and Vancouver, we note the substantial achievements made in advancing APEC cooperation in our trade and investment liberalisation and facilitation agenda as well as progress in capacity building efforts on economic and technical cooperation.

16. We have reflected on the progress and the results achieved throughout the year as reported to us by our Ministers and we express satisfaction in fulfilling the tasks we set for ourselves when we last met in Vancouver. We welcome the outcomes of the various sectoral Ministerial Meetings held throughout the year and direct APEC fora to follow up on the recommendations.

17. Towards realising the goal of free trade and investment in the region in accordance with the principles of the Osaka Action Agenda, **we pledge to continue improvements and implementation of our Individual Action Plans (IAPs).**

18. We commend the work of our Ministers to facilitate the flow of goods, resources, capital and technology amongst our economies. We will improve the facilitation process to promote efficiency and cost reduction through strengthening members' capacities, including adopting policies to harness the potential of new technologies.

19. **We welcome the progress achieved on the EVSL package of nine sectors.** We instruct Ministers of participating economies to implement the agreement reached on these sectors and further advance work on the remaining six sectors, demonstrating our commitment to the liberalisation process amidst the financial crisis in the region.

20. We affirm that progressing all three pillars of cooperation in APEC will strengthen the foundations for further growth. We commend progress in the priority areas of human resources development and harnessing technologies of the future. We note the improvements in the management of the economic and technical cooperation process including the work underway in infrastructure and sustainable development. **We instruct Ministers to give further focus to strengthen coordination in ECOTECH activities and intensify work in the priority areas.** We believe the contribution of the business/private sector in ECOTECH activities will enhance and strengthen our efforts to advance the economic and technical cooperation agenda and welcome ABAC's commitment in this area through the Partnership for Equitable Growth (PEG).

21. As the APEC community enters into its tenth year of cooperation, we recognise the need to review its activities, structure and mechanisms in order to ensure that APEC delivers focused and outcome-oriented results in the most effective and efficient manner. We observe the proliferation of APEC fora and meetings and endorse work to further streamline the APEC management process. **We instruct Ministers to complete the review of the APEC process by 1999 and for implementation of measures in 2000.**

22. We recognise that the involvement of the business/private sector is an important feature of APEC work and endorse its broader participation in APEC activities. We direct Ministers to enhance business/private involvement, within existing guidelines, in relevant APEC activities. We welcome efforts to improve business mobility through the APEC Business Travel Card scheme and the collective commitment to expand the availability of multiple entry visas or permits to business travellers. We also welcome the recommendations by ABAC and instruct our Ministers to study ABAC's proposals, including the APEC Food System.

## **STRENGTHENING THE FOUNDATIONS FOR SUSTAINED GROWTH INTO THE 21<sup>ST</sup> CENTURY**

23. We are firmly resolved to strengthen social safety nets, financial systems individually and globally, trade and investment flows, the scientific and technological base, human resources development, economic infrastructure, and business and commercial links so as to provide the base and set the pace for sustained growth into the 21<sup>st</sup> century.

### **Strengthening Social Safety Nets**

24. Given the ramifications of the crisis and the importance of addressing social vulnerabilities, we agree that as a matter of high priority, APEC should intensify efforts to address the social impacts of the crisis. In particular, we direct our Ministers to work with the World Bank, the ADB, the Inter-American Development Bank and, where appropriate, public and private institutions to formulate **strategies of concrete actions aimed at strengthening social safety nets.** We look forward to receiving a report at our next meeting.

### **Strengthening Financial Systems Individually and Globally**

25. We recognise that the development and strengthening of the financial system is fundamental to the realisation of APEC's goal of free and open trade and investment by the year 2010/2020.

We welcome the work undertaken in several fora to strengthen the international financial system and in particular take note of the proposals made to improve transparency and accountability; to strengthen national financial systems and market infrastructure; and to improve co-ordination and involvement of the private sector in the prevention and orderly resolution of international financial crises. We believe that there would be considerable value in continuing this work in a process involving both industrialised and emerging markets economies. We agree that a forum such as an expanded G22 would be appropriate for this purpose. **We also call on our Finance Ministers to develop, on an expedited basis, measures to implement these proposals.** We ask for a report at our next meeting on the outcomes of such deliberations within APEC and elsewhere.

We attach special urgency to examine the scope for strengthened prudential regulation of financial institutions in industrialised economies to promote safe and sustainable capital flows, to encourage sound analysis and better risk assessment; to examine the questions of appropriate transparency and disclosure standards for private sector financial institutions involved in international capital flows, such as investment banks, hedge funds and other institutional investors; and to examine the implications of operations of highly leveraged and off-shore institutions. We call for the early establishment of a taskforce including the systemically significant economies to develop practical proposals in these areas. We also call for work to proceed immediately in an appropriately constituted international working group on improved crisis management including orderly debt workout arrangements with the private sector. These proposals can be discussed in the forum for endorsement at the leaders' level and subsequent implementation.

26. The financial instability in Asia underscores the importance of developing strong, resilient and well-regulated domestic financial markets within the framework of a stable international financial system. We therefore call for the adoption by member economies of internationally recognised principles for enhancing supervision of banking systems and securities markets. Among these are the Basle Principles on Effective Banking Supervision and those of the International Organisation of Securities Commissions. In this connection, we welcome work by our Finance Ministers and Central Bank Governors to explore ways to assess the adequacy of and to help reinforce efforts to strengthen financial supervisory regimes in member economies, including by identifying ways to record in APEC their progress in adopting international standards/codes/best practices. We look forward to a report at our next meeting on both these directives.

We also **direct our Finance Ministers** to look for **innovative ways to promote the recovery of capital flows into the region**, including through partnerships among member economies, the private sector and collaborative efforts with the World Bank, the ADB and other multilateral institutions. We look forward to concrete results at our next meeting.

27. We record our satisfaction with the progress made by our Finance Ministers in promoting the Cebu collaborative initiatives to develop strong, resilient and stable financial and capital markets in our region and we look forward to regular updates on the implementation of these initiatives at the individual and regional level. We endorse the move by our Finance Ministers to address the need for freer and stable capital flows into the region and in this regard direct our Finance Ministers to incorporate the useful lessons of the past 18 months as they endeavour to develop a pragmatic Voluntary Action Plan as well as formulate appropriate guidelines for monitoring capital flows, including short-term flows.

28. We commend increased efforts to assist crisis-affected regional economies develop sufficient capacity to rebuild their economies and overcome current difficulties. We welcome the Australian **initiative on Economic Governance Capacity Building** and the areas proposed for enhanced capacity building joint activities. We also welcome the Singapore initiative which will provide technical assistance programmes at the IMF-Singapore Regional Training Institute and in collaboration with other interested partners and institutions. We encourage economies to pursue such capacity building initiatives.

29. We are agreed on the importance of improving economic transparency and predictability at the national and international levels. Therefore, **we welcome a new collaborative initiative** agreed by Finance Ministers at Kananaskis to examine ways of **strengthening corporate governance** in the region. We also welcome a new initiative on the development of domestic bond markets. We applaud the initiative of the Financiers Group to create

private sector training and education programme for financiers across the APEC region, which we believe, will complement the effort of the member economies in this area. We direct our Finance Ministers to focus efforts on advancing progress on all these initiatives and look forward to a report on concrete outcomes at our next meeting.

### **Strengthening Trade And Investment Flows**

30. We welcome further efforts to strengthen trade and investment flows in the region. These include work on competition policy and regulatory reforms as well as rapid implementation of measures to further enhance an environment conducive for trade and investment flows. In this regard we welcome the adoption of the menu of options and measures on investment and Korea's initiative to host an APEC FDI Mart in Seoul in June 1999.

We note that knowledge-based industries and tourism have considerable potential to contribute to growth and development in the next century. We recognise the need for efforts to maximise the contribution of these sectors to the prosperity of APEC economies.

### **Strengthening The Science And Technological Base**

31. **We endorse the 1998 APEC Agenda for Science and Technology Industry Cooperation into the 21st century** which will facilitate our vision of enhancing APEC's ability to harness technologies for the future and catalyse the development of strong sustainable regional science and technology networks and partnership. We take note of the principles, mechanisms and areas for joint actions set out therein and instruct Ministers to undertake due efforts to implement the agenda. We welcome the establishment of the China APEC Science and Technology Industry Cooperation Fund.

### **Strengthening Human Resources Development**

32. We reiterate our common belief that human resources development is a key and integral factor to the realisation of all efforts towards a capacity for sustained growth in the economies of the Asia-Pacific into the 21st century. We have made a commitment to a framework to advance human resources development across the entire spectrum of our work plan. **We therefore endorse the attached 1998 Kuala Lumpur Action Programme on Skills Development in APEC** as a significant inroad into public-business collaborative partnership in skills development. This programme recognises the value of the contribution of the business sector and underscores APEC's continued broadening of its outreach to the business community. We welcome the initiatives of member economies and further instruct Ministers to undertake concerted efforts towards the implementation of this Action Programme. In this regard, we welcome Singapore's technical assistance for the training of healthcare professionals in the region.

We support continued efforts to further the role of women in the APEC process. To this end, we instruct Ministers to develop a **Framework for the Integration of Women in APEC**.

### **Strengthening the Economic Infrastructure**

33. We reaffirm that strengthening the capacity of our economic infrastructure is an essential component towards the realisation of our goals of sustainable and equitable growth and development throughout the APEC community. We commend in particular commitment given throughout 1998 to further strengthen and develop economic infrastructure. We welcome the Natural Gas Initiative approved by the Energy Ministers at Okinawa. We acknowledge the progress that is ongoing in the implementation of the Vancouver Framework For Enhanced Public-Private Partnerships in Infrastructure Development. We welcome progress being made in advancing the initiative of creating the Asia-Pacific Information Society and endorse work to further advance the development of the Asia-Pacific Information Infrastructure (APII).

We reiterate our commitment to advance sustainable development across the entire spectrum of our workplan including cleaner production, protection of the marine environment and sustainable cities. **We endorse the joint actions to be launched in the areas of food, energy and the environment** in relation to the economic and population growth of the APEC community. We instruct that Ministers undertake efforts to develop the implementation of these joint actions. We commend the initiative of Ministers in establishing the **APEC Framework for Capacity Building Initiatives on Emergency Preparedness**, which seeks to foster cooperation in longer-term capacity building in

preventive and responsive measures for unexpected natural emergency disasters.

### **Strengthening Business and Commercial Links**

34. SMEs are a major stakeholder in APEC comprising over 95 percent of all enterprises, employing up to 80 percent of the work force and contribute 30 to 60 percent of the GNP of APEC economies. We stress the importance of harnessing and increasing the potential for SMEs to contribute to growth and development in the region. We commend Ministers for producing the **Integrated Plan of Action for SME Development (SPAN)** that sets out the blueprint of strategic directions for both enterprise and entrepreneur development through individual and collective actions. We instruct Ministers to focus on further developing and strengthening the dynamism of SMEs and to give priority to the implementation of joint actions of the SPAN and encourage economies to adopt individual actions to strengthen the development of SMEs. We look forward to receiving more concrete outcomes at our next meeting.

35. We commend Ministers for formulating the **APEC Blueprint For Action On Electronic Commerce** containing broad themes and cooperative activities for the promotion and development of electronic commerce in the region. We recognise that the Y2K problem has the potential to cause significant economic, trade and financial disruption. We agree that all economies need to enhance awareness and implement necessary measures to resolve this problem on an accelerated basis.

We are confident that APEC, bound together by our commitment to our goals and our resolve to strengthen the foundations for growth, will meet the challenges of the 21<sup>st</sup> century.

KUALA LUMPUR, MALAYSIA  
18 November 1998